BANK INDONESIA REGULATION
NUMBER: 7/31/PBI/2005
CONCERNING
DERIVATIVE TRANSACTIONS

THE GOVERNOR OF BANK INDONESIA

Considering:

a. whereas a sound banking system and financial market are necessary to support the measures taken by Bank Indonesia to achieve and maintain stability in the rupiah;
b. whereas the free foreign exchange system applied in Indonesia has accelerated the expansion and integration of the Indonesian financial market into the global financial market, including the derivative transactions conducted therein;
c. whereas margin trading in foreign currency derivative transactions containing elements of speculation may be one factor influencing movement in the value of the rupiah;
d. now therefore on the basis of the considerations referred to in letter a, letter b, and letter c, and with regard to prudential banking principles, it is deemed necessary to enact new provisions concerning derivative transactions by Banks in a Bank Indonesia Regulation;

In view of:

1. Act Number 7 of 1992 concerning Banking (State Gazette of the Republic of Indonesia Number 31 of 1992,

Supplement …

Supplement to the State Gazette of the Republic of Indonesia Number 3472) as amended by Act Number 10 of 1998 (State Gazette of the Republic of Indonesia Number 182 of 1998, Supplement to the State Gazette Number of the Republic of Indonesia 3790);

2. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette of the Republic of Indonesia Number 66 of 1999, Supplement to the State Gazette of the Republic of Indonesia Number 3843) as amended by Act Number 3 of 2004 (State Gazette of the Republic of Indonesia Number 7 of 2004, Supplement to the State Gazette of the Republic of Indonesia Number 4357);
3. Act Number 24 of 1999 concerning Foreign Exchange Flows and the Exchange Rate System (State Gazette of the Republic of Indonesia Number 67 of 1999, Supplement to the State Gazette of the Republic of Indonesia Number 3844);
4. Bank Indonesia Regulation Number 5/8/PBI/2003 concerning the Application of Risk Management for Commercial Banks (State Gazette of the Republic of Indonesia Number 56 of 2003, Supplement to the State Gazette of the Republic of Indonesia Number 4292);

HAS DECREED:

To enact: THE BANK INDONESIA REGULATION CONCERNING DERIVATIVE TRANSACTIONS.

CHAPTER I …

CHAPTER I
GENERAL PROVISIONS
Article 1

The terminology used in this Bank Indonesia Regulation has the following meanings:

1. "Bank" is a commercial bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, including a branch office of a foreign bank.
2. "Derivative Transactions" are transactions based on a contract or agreement for payment in which the value is a derivative of the value of underlying instruments, such as interest rates, exchange rates, commodities, equity and indices, whether accompanied by or not accompanied by notional amounts or instruments, but not including credit derivative transactions.
3. "Margin Trading" is a Derivative Transaction without notional amount, so that movement only takes place in the margin calculated from the notional amount with an exchange rate differential and/or interest rate differential that requires or does not require a margin deposit to guarantee the execution of the transaction.
4. "Margin Deposit" is funds set aside specifically to cover loss that may be incurred from a Margin Trading transaction throughout the effective duration of the contract for the Margin Trading transaction.
5. "Maintenance Margin" is the minimum margin deposit that must be maintained throughout the effective duration of a contract for Margin Trading transaction.
6. "Margin Call" is an announcement concerning additional deposit needed to meet the minimum margin deposit agreed upon by contract.

7. "Capital …

7. “Capital” is tier 1 capital and tier 2 capital as stipulated in the applicable Bank Indonesia regulatory provisions concerning the Minimum Capital Adequacy Requirement for Commercial Banks.
8. “Open Position” is the position of the base currency of a Derivative Transaction that is still open.
9. “Mark to Market” is a means of calculation based on an agreed market rate at the end of every working day on a consistent basis for open positions in order to determine loss or gain.
10. “Customer” is any party using the services of a Bank.

Article 2

(1) Banks may conduct Derivative Transactions either for their own account for the account of customers.

(2) When conducting Derivative Transactions as referred to in paragraph (1), the Bank is required to perform Mark to Market.

Article 3

When conducting Derivative Transactions, Banks are required to apply risk management as stipulated in the applicable Bank Indonesia regulatory provisions concerning Application of Risk Management for Commercial Banks.

Article 4

(1) Banks are required to provide full disclosure to customers intending to conduct Derivative Transactions.

(2) Full disclosure to customers as referred to in paragraph (1) includes but is not limited to explanations of:

a. credit risk,

b. settlement risk, and

c. market risk.

d. the possibility that the balance of Margin Deposit may become zero or even negative, and therefore the Bank may ask the customer to add to the Margin Deposit if the customer intends to continue or close the Margin Trading transaction.

(3) Derivative Transactions for the account of customers shall be governed by contracts.

(4) Contracts as referred to in paragraph (3) shall cover at least the following:

a. ceiling on the derivative transaction;

b. base currency used;

c. currency or instrument to be exchanged;

d. settlement of the derivative transaction;

e. book keeping of gains/losses arising from the derivative transaction;

f. recording of unrealized gains or losses;

g. method or means of the derivative transaction;

h. amount of commission;

i. use of conversion rate;

j. advice and confirmation of the derivative transaction;

k. confidentiality; and

l. domicile and governing law.

(5) Contracts for Margin Trading transactions, in addition to the material referred to in paragraph (4), must also state the following:

a. amount of Margin Deposit;

b. the prescribed Maintenance Margin; and

c. rights and obligations of the customer.

(6) Contracts …

(6) Contracts as referred to in paragraph (4) and paragraph (5) shall be printed in large, easily legible type.

Article 5

(1) Banks are prohibited from maintaining positions in Derivative Transactions conducted by related parties.
(2) A Bank shall be deemed to hold a position in a Derivative Transaction conducted by a related party if the Bank does not simultaneously pass on the related party transaction at the same time and in the same amount to another, non-related Bank.
(3) Related party as referred to in paragraph (1) and paragraph (2) shall be construed according to the definition of Related Party of a Bank as referred to in the applicable Bank Indonesia regulatory provisions concerning the Legal Lending Limit for Commercial Banks.

Article 6

Banks are prohibited from providing credit and overdraft facilities to Customers for the purpose of Derivative Transactions, including the topping up of a Margin Deposit for a Margin Trading transaction.

Article 7

(1) Banks shall only conduct Derivative Transactions in which their value is a derivative of a foreign currency and/or interest rate.

(2) The scope of Derivative Transactions in which value is a derivative of a foreign currency and/or interest rate as referred to in paragraph (1) includes but is not limited to:

a. forward transactions, swaps, options, currency futures, and transactions with today and tomorrow values synthesized as Derivative Transactions; and/or

b. interest rate swaps, interest rate options, FRAs, and interest rate futures.

(3) Banks are prohibited from conducting Margin Trading in foreign currencies against the rupiah, whether for their own account or for the account of customers, and from conducting Derivative Transactions other than the transactions referred to in paragraph (1).

Article 8

(1) Loss to a Bank from Derivative Transactions, measured cumulatively over the current year, shall not exceed 10% (ten percent) of Bank Capital.

(2) The maximum 10% limit on loss to a Bank as referred to in paragraph (1) shall be waived in the case of loss from Derivative Transactions not set off against gain from non-derivative transactions directly linked to the Derivative Transactions concerned.

(3) In the event that the loss of the Bank exceeds 10% (ten percent) of Bank Capital, the Bank shall be prohibited from conducting new Derivative Transactions and shall report the measures to be taken to recover the loss to Bank Indonesia by no later than the following working day.

Article 9 …

Article 9

(1) A Bank conducting a Margin Trading transaction for the account of a customer, not accompanied by notional amount or instrument, shall request the customer to provide:
   a. Margin Deposit of no less than 10% (ten percent) of the ceiling of the Margin Trading transaction; and
   b. Maintenance Margin of no less than 50% (fifty percent) of the Margin Deposit.
(2) The Bank shall issue a Margin Call to a customer if the Margin Deposit has reached the Maintenance Margin.
(3) The Bank is required to terminate a Derivative Transaction for the account of a customer if after Margin Call, the customer does not provide additional deposit no later than the following working day.
(4) The Bank is required to report to the customer the Derivative Transaction position of that customer and provide a special report when the customer position is deemed in danger, namely when the customer faces the possibility of loss such that the available Margin Deposit will not cover the loss.

Article 10

(1) Banks shall submit weekly reports to Bank Indonesia concerning Derivative Transactions, in accordance with the Reporting Format for Derivative Transactions as presented in Appendices 1 and 2, covering:
   a. losses/gains; and
   b. the position of Derivative Transactions, whether for the account of the bank itself or for the account of customers.
(2) The weekly reports referred to in paragraph (1) shall be arranged according to the following periods:

a. the …

a. the first weekly reporting period, commencing from the 1st (first) through the 7th (seventh) day of the month.
b. the second weekly reporting period, commencing from the 8th (eighth) through the 15th (fifteenth) day of the month.
c. the third weekly reporting period, commencing from the 16th (sixteenth) through the 23rd (twenty-third) day of the month.
d. the fourth weekly reporting period, commencing from the 24th (twenty-fourth) day through the end of the month.

(3) Reports as referred to in paragraph (1) shall be submitted to Bank Indonesia no later than 7 (seven) working days after the end of the reporting period.

(4) The deadline for submission of reports as referred to in paragraph (3) includes the period for submission of report corrections.

Article 11

(1) Any Bank in violation of Article 2 paragraph (2), Article 3, Article 4, Article 5, Article 6, Article 7, Article 8, Article 9, and Article 10 shall be liable to administrative sanctions in the form of written warning and a financial penalty of 10% (ten percent) of the amount of the violating transaction.

(2) The total financial penalty for a transaction as referred to in paragraph (1) shall not exceed Rp 27,000,000,000.00 (twenty-seven billion rupiahs) during 1 calendar year.

Article 12

Any Bank that at the time of promulgation of this Bank Indonesia Regulation is holding an outstanding position in Derivative Transactions as referred to in

Article 7 and that has not reached maturity shall square the position no later than 1 (one) month after the promulgation of this Bank Indonesia Regulation.

Article 13

With the enactment of this Bank Indonesia Regulation, Decree of the Board of Managing Directors of Bank Indonesia Number 28/119/KEP/DIR dated December 29, 1995, concerning Derivative Transactions is revoked and declared no longer valid.

Article 14

This Bank Indonesia Regulation shall come into force on the date of its enactment.

Enacted in Jakarta
Dated September 13, 2005

THE GOVERNOR OF BANK INDONESIA,

BURHANUDDIN ABDULLAH

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 85 OF 2005
DPD

Reporting Format: Bank Derivative Transactions — Appendix 1

Bank ……………………………….
RECAPITULATION OF DERIVATIVE TRANSACTIONS
Period as of date:*)

In millions of rupiahs

TRANSACTION (by category of transaction)	BASE CURRENCY POSITION (in rupiahs)		GAIN/(LOSS)		
	Long	Short	Gain	Loss	Net Cumulative Total
(1)	(2)	(3)	(4)	(5)	(6)=(4)+(5)
I. With Notional Amounts					
1. Exchange Rate	0	0	0	0	0
2. Interest Rate	0	0	0	0	0
3. Combination of 1 and 2	0	0	0	0	0
II. Without Notional Amounts					
1. Exchange Rate	0	0	0	0	0
2. Interest Rate	0	0	0	0	0
3. Combination of 1 and 2	0	0	0	0	0
Total	0	0	0	0	0

Bank Capital:	0
Margin deposits from related party customers:	0
Margin deposits from non-related party customers:	0

$$\textbf{Percentage of Loss} = \frac{\textbf{Net Cumulative Total x 100\%}}{\textbf{Bank Capital}}$$

*) Fill in according to period:
a. Week I for 1st through 7th
b. Week II for 8th through 15th
c. Week III for 16th through 23rd
d. Week IV for 23rd through end of month.

Reporting Format: Bank Derivative Transactions Appendix 2

Bank ……………………………….

RECAPITULATION OF DERIVATIVE TRANSACTIONS

Period as of date:*)

In millions of rupiahs

TRANSACTION (by counterparty)	BASE CURRENCY POSITION (in rupiahs)		GAIN/(LOSS)		
	Long	Short	Gain	Loss	Net Cumulative Total
(1)	(2)	(3)	(4)	(5)	(6)=(4)+(5)
I. With Notional Amounts					
1. Transactions with Related Customers					
a. Banks	0	0	0	0	0
b. Non-Bank	0	0	0	0	0
2. Transactions with Non-Related Customers					
a. Banks	0	0	0	0	0
b. Non-Bank	0	0	0	0	0
II. Without Notional Amounts					
1. Transactions with Related Customers	0	0	0	0	0
a. Banks					
b. Non-Bank					
2. Transactions with Non-Related Customers	0	0	0	0	0
a. Banks					
b. Non-Bank					
Total	0	0	0	0	0

Bank Capital:	0
Margin deposits from related party customers:	0
Margin deposits from non-related party customers:	0

$$\textbf{Percentage of Loss} = \frac{\textbf{Net Cumulative Total x 100\%}}{\textbf{Bank Capital}}$$

*) Fill in according to period:
a. Week I for 1st through 7th
b. Week II for 8th through 15th
c. Week III for 16th through 23rd
d. Week IV for 23rd through end of month.